

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6072**

**BILL NUMBER: SB 25**

**NOTE PREPARED:** Mar 26, 2009

**BILL AMENDED:**

**SUBJECT:** 1977 Pension Fund Military Service Credit.

**FIRST AUTHOR:** Sen. Young R Michael

**FIRST SPONSOR:** Rep. Kersey

**BILL STATUS:** 2<sup>nd</sup> Reading - 2<sup>nd</sup> House

**FUNDS AFFECTED:**      **GENERAL**  
                                 **DEDICATED**  
                                 **FEDERAL**

**IMPACT:** Local

**Summary of Legislation:** This bill authorizes under certain conditions a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund to purchase up to two years of service credit for active duty military service.

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

**Effective Date:** July 1, 2009.

**Explanation of State Expenditures:**

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** The bill provides that the purchase of service credits by members must be at full actuarial cost. This means the following are considered: (1) the salary of a first class patrolman or firefighter at the time the member actually makes a contribution for the service credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund may wish to purchase service credit and the potential impact to the funds are identified below.

(A) If a member wanted to purchase service credit, the actuary for the fund calculates the cost of that service based on the salary of a first class patrolman or firefighter at the time the member actually makes a contribution for the service credit, the 1977 Police Officers' and Firefighters' Pension and Disability Fund

service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the 1977 Police Officers' and Firefighters' Pension and Disability Fund. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the 1977 Police Officers' and Firefighters' Pension and Disability Fund.

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the salary of a first class patrolman or firefighter at the time the member actually makes a contribution for the service credit before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

#### **Explanation of Local Revenues:**

**State Agencies Affected:** Public Employees' Retirement Fund as administrators of the 1977 Police Officers' and Firefighters' Pension and Disability Fund.

**Local Agencies Affected:** Those units with members in the 1977 Police Officers' and Firefighters' Pension and Disability Fund.

#### **Information Sources:**

**Fiscal Analyst:** James Sperlik, 317-232-9866.

#### **DEFINITIONS**

**Actuarial Cost-** A cost often used to associate the costs of benefits under a retirement system with the approximate time the benefits are earned.

**Consumer Price Index-** The Consumer Price Index is the name given in both the United States and Canada to the series of numbers whose ratios measure the relative prices at various times of a selected group of goods and services which typify those bought by urban families.

**Cost-of-Living Adjustment (COLA)-** An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).